

CONFIDENTIAL

Document No.	
No Change in Class. <input type="checkbox"/>	
<input type="checkbox"/> Declassified	
Class. Changed to: TS	89
Ext. Review Date:	
Auth: 1279.3	
Date: 7-4-79	By: 85

LS 6-0767a

2 May 1956

DDA

60-0704

MEMORANDUM FOR: Deputy Director (Support)

SUBJECT : Administrative Overhead Costs of Agency Insurance Program

OGC Has Reviewed

1. This memorandum suggests action on the part of the Deputy Director (Support). Such action is contained in paragraphs 6 and 7.

2. There are attached hereto:

(a) an undated memorandum (written in October), subject Administrative Overhead Costs of GEHA, Inc., addressed to the DD/S from Chief, Insurance and Casualty Division; and

(b) a memorandum of 2 April 1956 addressed to this Office, subject Administrative Overhead Cost of GEHA, Inc., from Chief, Audit Staff.

3. For several months the Agency has been attempting to determine what portion, if any, of the overhead expenses of GEHA (or the Insurance Branch) should be borne by the Agency and what portion, if any, should be borne by policy holders. Following a number of conferences and exchange of memoranda, the DD/S requested the Insurance and Casualty Division, the Office of the Comptroller and this Office to undertake a joint study. Mr. [] paper, cited at subparagraph 2(a) above, thereupon was prepared and concurred in by the Office of the Comptroller, but this Office felt that it did not constitute a complete and responsive study as called for by the DD/S instruction. Consequently, the Assistant DD/S asked the Audit Staff to undertake an analysis. The paper at subparagraph 2(b) is [] report.

4. [] paper recommended that all insurance overhead costs be borne by the Agency. The Audit report, in effect, states that the hospitalization and health programs of the Agency are paralleled elsewhere in the Government, our life insurance programs (other than WAEPA) are not, and the security factors peculiar to this Agency require the Agency to process premium payments and claims for life as well as health and hospitalization insurance, within the Agency and not to permit the companies to do so. This latter conclusion was based on a position taken by Colonel Edwards. The

CONFIDENTIAL

S & S Subject.

report further suggests that it would be impracticable to determine what part of the cost of GEHA should be a proper charge against the Government and what part should be borne by policy holders, and further, that any division of cost would be purely arbitrary and not supported by legal authority. On this latter point, although we would think it might be possible to devise a formula, based on Audit's analysis of salary costs (paragraph 2 of Audit Report), for the apportionment of costs, it will not be necessary to do so if the action recommended below (paragraphs 6 and 7) is approved.

5. We would agree that insurance practices and procedures which have acquired usage elsewhere in the Government may be applied by this Agency. With respect to the two phases of Agency insurance activities which do not have counterparts elsewhere in the Government, we have supplemented the two papers by further conversations with Colonel Edwards. Colonel Edwards (and [redacted]) made the following points:

- (a) We could not order personnel not to obtain insurance from private sources;
- (b) If personnel were to obtain insurance from any and all sources, this would lead to many insurance investigations with attendant security damage.
- (c) If personnel were to obtain group insurance under arrangements whereby the companies collected premiums and settled claims, without Agency participation and protection, the companies would have lists of Agency people and, when claims developed, would learn of Agency interest and presence in various areas and of Agency cover association with certain commercial concerns.
- (d) Although the availability of Agency sponsored group insurance does not preclude personnel from obtaining insurance elsewhere, its availability, at the low prices possible through group plans, lessens the amount of outside insurance which personnel otherwise would carry.
- (e) In practice a number of claims have developed which have demonstrated the security advantages in internally processed policies and claims.

It seems likely also that in many instances assignments given personnel cause them to determine to obtain more coverage; thus if we did not make insurance available we would be forcing personnel to seek it elsewhere.

6. In the opinion of this Office, the foregoing recitation, together with attachments, represents a proper and adequate examination

of this question warranting a determination that the insurance program of this Agency is required by security and operational factors peculiar to the unusual mission of this Agency. Further, upon such a determination, it would be our opinion that the Agency is empowered by Public Law 110 to bear all overhead costs of the insurance program.

25X1A9A 7. Consideration of this problem originated in a request from [] Chairman of the Board of Directors, GEHA, to the DD/S, 6 April 1955, requesting the approval of necessary expenditures for the installation of office equipment. Since GEHA is a private corporation, not a government unit, it is recommended that the approval be for the installation of the equipment for the use of the Insurance and Casualty Division.

15/
[]
Assistant General Counsel

25X1A9A

Concur:

S. S. Edwards
Office of Security

Approve:

MAY 18 1956

25X1A []
Deputy Director (Support)

Assistant

cc: Office of the Comptroller *Wif*
Chief, Insurance and Casualty Division
DD/S (2) *Charns & subject*
Director of Security

GGC:RHL:jcf

SECRET